

**EXECUTIVE SECRETARIAT**  
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16	VC/NIC		X		
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18	D/EURA/DI		X		
19	NIO/NESA		X		
20	NIO/EUR		X		
21	NIO/CT		X		
22	C/NE		X		

SUBMIT

Date

Remarks

To #5: For your use at today's CPPG.

Executive Secretary  
28 Jan 86

Date

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## United States Department of State

Washington, D.C. 20520

Executive Registry

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January 27, 1986

TO: OVP - Mr. Donald P. Gregg (E.S. SENSITIVE 8602489)  
 NSC - Mr. William Martin (E.S. SENSITIVE 8602490)  
 CIA - [redacted] (E.S. SENSITIVE 860249125X1)  
 DOD - COL David R. Brown (E.S. SENSITIVE 8602492)  
 JCS - MAJ Michael F. Emerson (E.S. SENSITIVE 8602493)  
 Treasury - Ms. Sherrie Cooksey (E.S. SENSITIVE 8602494)

SUBJECT: CPPG Meeting, Tuesday, January 28, 1986

At the request of the NSC, the Department of State has prepared the attached paper for discussion at the CPPG meeting on Tuesday, January 28. In the interest of time, we are providing a copy for the use of your participants. The paper covers the results of Deputy Secretary Whitehead's mission, soundings from other countries, and additional measures which key states may agree to undertake.

*Nicholas Platt*  
 for Nicholas Platt  
 Executive Secretary

Attachment

As stated.

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TERRORISM AND THE ISOLATION OF LIBYA

Results of Deputy Secretary Whitehead's Mission.

Deputy Secretary Whitehead's Mission to Canada and eight European capitals yielded some successes, but it is clear that there is deep resistance among most of our allies to imposition of economic sanctions on Libya. The term "economic sanctions" immediately evoked a negative response from European governments soured by earlier experiences with sanctions: the Soviet pipeline affair, the Falklands, Poland, and Nicaragua.

We did not expect our allies to adopt precisely the same steps that we have taken, but asked only that they consider what "peaceful measures" each of them could take to help achieve a shared objective of forcing Qadhafi to abandon his support for terrorism. Most governments found it easier to contemplate "peaceful measures" than "economic sanctions." Many pointed to steps they had already taken, claiming these had been largely ignored -- severance of diplomatic ties (UK), heightening of surveillance of People's Bureaus (FRG), and tighter travel controls (Italy).

In each capital Deputy Secretary Whitehead outlined six areas in which we hoped our allies could be helpful:

- Cutting off or cutting back on imports of Libyan oil, perhaps by asking companies to do so voluntarily;
- Banning sales of arms, spare parts, and sophisticated equipment to Qadhafi;
- Eliminating export credits or guarantees;
- Not filling in behind departing U.S. companies and technicians;
- Cutting back on air services and curbing the activities of Libyan Peoples' Bureaus; and
- Specifically condemning Libya's support for terrorism.

Reactions were mixed, but offered some room for hope. Only West Germany showed some interest in a sizeable, early cut in oil imports but this would depend partly on U.S. companies which sell them some 40 percent of the Libyan oil they buy. All except Greece confirmed a ban on arms transfers, although there are a few loose strings with respect to spare parts (France and Italy) and high tech (FRG).

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New export credits to Libya from European governments consulted have been virtually eliminated, albeit for commercial rather than political reasons in most cases. All governments on Mr. Whitehead's itinerary promised not to fall in behind us as we pull out of Libya, although some will not do very much to enforce this (UK being the most unresponsive). Tighter controls on Libyan diplomats and aircraft are likely everywhere but no new break-off of relations is in view and cancellation of flights is uncertain. Neither the Turks nor the Greeks will yet condemn Libya publicly.

Today, EC ministers will conclude their meeting in Brussels. Based on the Deputy Secretary's efforts, there is reason to hope they will agree to condemn Libya specifically, pledge not to undercut our sanctions, and announce a community-wide embargo on arms sales to Libya. Mr. Whitehead stressed at each stop that a bland outcome of this EC Ministerial would be very disappointing to us and help Qadhafi. We have sent messages from the Secretary to Foreign Ministers Genscher, Howe, Andreotti and Van Den Broek encouraging their support for our measures at the EC meeting.

In explaining our call for "peaceful measures," Mr. Whitehead stressed that the President had set aside the military option for the moment, but reserves the right to such action if Qadhafi's intolerable behavior persists. The Europeans had strong reservations about the use of force against Libya, emphasizing the risks of alienating the Arab world, ruining the Middle East peace process, and pushing Qadhafi further into the arms of the Soviets. We conclude that if military force is used against Libya under present conditions, not one of the governments visited (with the possible exception of Canada) would endorse our action, even if it was successfully pinpointed against terrorist targets. Nonetheless, those European leaders most attuned to the Middle East believe that, should military force be used, a major attack which badly damaged or brought about the collapse of the Qadhafi regime would be a much better course of action than a limited attack.

Creative thought must be given on how to persuade Arab governments to communicate to the Europeans just how much they really hate -- and fear -- Qadhafi. Many Europeans believe

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that our actions thus far have inflated Qadhafi's position to the point where he has firm and meaningful support not only from his Arab brothers, but from the entire Islamic Conference which condemned us at Fez.

Despite the obstacles which still confront us, the Whitehead mission was an important contribution to our policy of isolating Qadhafi. Our Libyan nemesis is beginning to feel the pressure, and his earlier bravado has changed to obvious nervousness. The naive dispatch of "truth squads" to Europe pleading Qadhafi's innocence and accusing the United States of aggression was seen by the Europeans as a sign of weakness. We regained some of the initiative which was undermined by the immediate negative reactions of Thatcher and Kohl to the President's January 7 announcement. The dialogue with our allies is on track; we are now talking of how each of us can help meet the common threat rather than focussing almost exclusively on a sterile debate over the efficacy of "sanctions". That, along with the tentative "peaceful measures" which the Europeans have begun to take, is a good foundation to build on, but we have our work cut out for us in the weeks and months ahead. A more intensive consultative process could strengthen our cooperation with Europeans against other forms of terrorism as well.

Supportive Undertakings of Other Governments.

The Libyans continue to press for an Arab League extraordinary session at the ministerial level; this may be convened January 30. The purpose would be to debate the "threat" posed by our sanctions. If the meeting does take place, we anticipate egregious accusations, and, although unlikely, some type of cosmetic "sanctions" cannot be completely ruled out. We will send messages to some of our Arab friends encouraging them to avoid taking contentious positions at any meeting which may take place. Debate would be particularly sharp if our military exercises off Libya result in an exchange with Libyan armed forces.

In the absence of further escalation in tensions, we may be able to count on friendly Arab governments to temporize about holding an extraordinary meeting. The Tunisians and Jordanians

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are among those who have told us they are resisting the convocation of the meeting. Others (the Gulf States, Iraq, perhaps Morocco) would be very reluctant to go along with strong punitive action.

We hope the EC ministerial will point up the fact that we have minimized extraterritorial reach in our sanctions; this should reassure Arab governments. Even so, moderate Arab states, in anticipation of adverse economic effects of a further escalation in tensions, might consider defensive investment policies which could, if convenient, be characterized as punitive to hard line Arab critics.

Other OECD members have reacted to our sanctions roughly in proportion to their economic interests with Libya. Countries such as Japan, Australia and New Zealand are supportive in principle, particularly in areas such as controlling Libyan missions, arms sales, and not extending new credits. Others such as Austria, Finland, Switzerland and South Korea have underscored their proportionately large involvement in Libya by trying to avoid taking significant economic actions, citing in particular the lack of UN or other broad sponsorship.

Third world governments have fewer choices in their economic activity with Libya -- e.g. Pakistani and Filipino laborers. Their economic interests and political disposition more often than not results in business continuing as usual. We have seen evidence of significant restraint on the part of the Brazilians which have indefinitely postponed arms talks with the Libyans. India would like to be helpful in the fight against terrorism, but wants to retain leadership in the non-aligned movement.

The Soviets seem more willing to interject themselves between their client and the U.S. than previously, offering increased armaments and intelligence support, and voicing public condemnation of the U.S. Moscow may have concluded that while support for erratic clients such as Libya and Syria has significant downsides, it puts them in position as protector of Arab interests; they clearly hope to parlay this into a role in the peace process. The East Bloc has followed the Soviet lead in attempting to describe U.S. policy as using the excuse of terrorism to attack Libya.

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Additional Measures Which Might be Undertaken.

o Oil imports: Gradually move Libya to position as supplier of last resort. This would force Libya to discount prices steeply if it wants to retain high levels of production. We could consider pushing a few countries with no significant imports to declare they will forego Libyan oil entirely, and we could pursue quiet diplomacy to obtain useful results. The problem would be with Italy which is the major purchaser of Libyan crude and has substantial interests and workers in the Libyan oil sector. Turkey has also indicated problems with reducing oil imports, which serve as a guarantor of Libyan repayment on debt.

o Export restrictions: There is virtually no hope of formal collective trade restrictions on Libya, unless Qadhafi misbehaves again. However, since most OECD governments now restrain arms and nuclear-related supplies to Libya, further quiet pressure by the U.S. to restrict specific items clearly linked to terrorism could be useful. Proposed actions include: creating a list of specific items, monitoring their movement and following-up diplomatically through Embassy demarches, high level visits and special interagency teams on occasion.

o Export credits: Work for consensus within OECD countries against providing additional export credits or guarantees to Libya. Lending and insurance institutions may have a role to play here.

o Libyan presence. With a minimum of publicity, we should exchange intelligence and techniques with governments prepared to work against Libyan-sponsored terrorism. Following up on the Whitehead visit, we need to continue the dialogue about ways we and other countries can successfully control Libyan access, such as restricting Libyan missions and tighter visa controls for all Libyans and third country nationals coming out of Libya. An interagency team is already planning to visit European capitals next month to discuss intelligence sharing on terrorism and could expand the discussion to cover these points.

In dealing with Eastern European governments, we should make clear our unhappiness over their support for Libya and for other terrorist regimes and organizations. They should be made aware that such support will significantly hinder any attempts at broadening and deepening our bilateral relationships.

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Drafted: LWG:RLDANKERT/S/CT:DLong

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Clearance: NEA: ARaphel  
S/P: NLedsky  
L: ADSofaer  
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